

FINANCIAL MANAGEMENT ADVISORY COUNCIL

GASB UPDATE – September 2011

The views expressed in this presentation are those of the presenter. Official positions of the GASB are established only after extensive due process.

Agenda

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- Statement 54—Fund Balance Reporting
- Statement 59—Financial Instruments Omnibus
- Statement 60—Service Concession Arrangements
- Statement 61—Financial Reporting Entity: Omnibus
- Statement 62—Pre 1989 FASB/AICPA Pronouncements
- Statement 63—Net Position
- Statement 64—Derivative Terminations
- Current Technical Agenda

GASB STATEMENT NO. 54, *FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS*

Issued February 2009

Nonspendable Fund Balance

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- ☐ Not in spendable form, such as
 - ☐ Inventory
 - ☐ Long-term receivables (unless the proceeds are restricted, committed, or assigned)
- ☐ Legally or contractually required to be maintained intact
 - ☐ Corpus of a permanent fund

Restricted Fund Balance

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- ☐ Same definition as for net assets in Statement 34 (as amended by Statement 46)—amounts constrained to being used for a specific purpose by:
 - ☐ External parties
 - ☐ Constitutional provisions
 - ☐ Enabling legislation

Committed Fund Balance

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- ☐ Constraint on use imposed by the government itself, using its highest level of decision making authority
 - ☐ Constraint can be removed or changed only by taking the same action
 - ☐ Action to constrain resources should occur prior to end of fiscal year, though the exact amount may be determined subsequently

Assigned Fund Balance

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- ❑ Amounts *intended* to be used for specific purposes
- ❑ Intent is expressed by
 - ❑ The governing body
 - ❑ A body (budget or finance committee) or official authorized by the governing body
- ❑ Residual amounts in governmental funds other than the general fund are assigned
- ❑ Appropriation of existing fund balance

Unassigned Fund Balance

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- ❑ Available for any purpose!
- ❑ Reported only in the general fund, except in cases of negative fund balance
 - ❑ Negative balances in other governmental funds are reported as unassigned

Classifying Residual Balances

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- ❑ Spending prioritization policies (the flow assumption)
 - ❑ Restricted vs. unrestricted
 - ❑ Committed, assigned, unassigned
 - ❑ Multiple policies
 - ❑ The “default” policy
- ❑ Negative balances
 - ❑ General fund
 - ❑ Other funds

Special Revenue Funds

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Statement 54 Definition:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term "proceeds of specific revenue sources" establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund

Special Revenue Funds

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- ❑ Report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects
- ❑ Restricted or committed specific revenue sources should comprise substantial portion of fund's resources, but fund also may include other restricted, committed, and assigned resources

What Else Do You Need to Know About Statement 54?

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❑ Other Issues:

- ❑ Reporting "rainy day" funds
- ❑ Reporting encumbrances
- ❑ Appropriation of existing fund balance

GASB STATEMENT NO. 59, *FINANCIAL INSTRUMENTS OMNIBUS*

14 Issued June 2010

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Summary

- Unallocated Insurance Contracts
 - ▣ Statements 25 and 43
- 2a7-Like External Investment Pools
 - ▣ Statement 31
- Interest Rate Risk Disclosures
 - ▣ Statement 40
- Derivative Instruments
 - ▣ GASB Statement 53

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Unallocated Insurance Contracts

- Employee benefit plans assets include unallocated insurance contracts
- Investments in unallocated insurance contracts should be reported as interest-earning investment contracts according to the provisions of paragraph 8 of Statement 31
 - ▣ Paragraph 8 provides guidance for contracts that participate in fair value changes and those contracts that do not participate in fair value changes

2a7-Like External Investment Pool

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- ▣ A 2a7-like pool should satisfy all SEC requirements of Rule 2a7, including that a group of individuals fulfills the functions of a board of directors
- ▣ Two exceptions:
 - The principal executive officer of the pool can be an elected official.
 - The pool is not required to register with the SEC

Interest Rate Risk Disclosures

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- ▣ The interest rate risk disclosure for a government's investments in mutual funds, external investment pools, or other pooled investments should be limited to:
 - ▣ Investments in *debt* mutual funds
 - ▣ External *debt* investment pools, or
 - ▣ Other pooled *debt* investments

Derivatives

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- ▣ **Contract Penalties:** Contract nonperformance penalties do not meet the net settlement characteristic included in the definition of a derivative instrument
- ▣ **Financial guarantee contracts** included in the scope of Statement 53 are limited to financial guarantee contracts that are considered to be investment derivative instruments that are entered into primarily for the purpose of obtaining income or profit

Derivatives

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- **Revenue-Based Contracts:** Contracts that are not exchange-traded and have reference rates based on specific volumes of sales or service revenue of one of the parties to the contract are excluded from the scope of Statement 53
- **Hybrid Instruments:** One of the criteria for determining whether a hybrid instrument should be reported according to the provisions of Statement 53 is that there is the potential for at least a doubled yield on an investor's initial rate of return on the companion instrument

STATEMENT NO. 60, ACCOUNTING AND FINANCIAL REPORTING FOR SERVICE CONCESSION ARRANGEMENTS

Issued June 2010

Service Concession Arrangements

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- Statement addresses service concession arrangements (SCAs)
- SCAs are a type of public-private or public-public partnership
- The term public-private partnership is used to refer to a variety of:
 - ▣ Service arrangements
 - ▣ Management arrangements
 - ▣ SCAs

Service Concession Arrangements

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□ Benefits of SCA's to Governments

- ▣ May provide government with ability to leverage existing infrastructure and other public assets to generate additional resources in form of up-front payments from operator for right to operate such assets
- ▣ May be used to facilitate construction and financing of new infrastructure and other public assets and transfer the risks associated with their construction and maintenance to a private entity
- ▣ May be used to provide services to the general populace in a more efficient and cost-effective manner

What is a Service Concession Arrangement?

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□ An arrangement in which *all* of the following criteria are met:

- ▣ A transferor conveys the right and related obligation to provide services to the public through the use and operation of a capital asset in exchange for significant consideration
- ▣ Operator collects and is compensated by fees from third parties
- ▣ The transferor is entitled to significant residual interest in the service utility of the facility at the end of the arrangement
- ▣ The transferor determines or has the ability to modify or approve the services the operator is required to provide, to whom the services will be provided, and the prices or rates that will be charged

Transferor Accounting

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□ Existing facility:

- Transferor continues to report existing facility as capital asset

□ New facility or improvements to existing facility:

- Transferor reports
 - ▣ (1) A new facility or improvements as capital asset at fair value when placed into operation,
 - ▣ (2) Any contractual obligations as liabilities,
 - ▣ And a corresponding deferred inflow of resources equal to the difference between (1) and (2)

Transferor Accounting

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□ Up-front or installment payments

- Transferor reports:
 - (1) An up-front payment or the present value of installment payments as an asset,
 - (2) Any contractual obligations as liabilities,
 - And a corresponding deferred inflow of resources equal to the difference between (1) and (2)

Transferor Accounting

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□ A liability is recorded at present value if a contractual obligation exists *and* if it meets either of the following criteria:

- The contractual obligation directly relates to the facility. *(for example, capital improvements, insurance, or maintenance)*

OR

- The contractual obligation relates to a commitment by the transferor to maintain a minimum or specific level of service in connection with the operation of facility. *(for example, police or emergency services, maintenance around facility)*

Transferor Accounting

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□ Revenue is recognized in a systematic and rational manner over the term of arrangement as the deferred inflow is reduced

□ Liability is reduced as transferor's obligations are satisfied

- When obligation is satisfied, a deferred inflow is reported and related revenue is recognized in systematic and rational manner over the term of the arrangement

Transferor Accounting

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- ❑ After initial measurement, the capital asset is subject to existing requirements for depreciation, impairment, and disclosures
- ❑ Improvements made to the facility during the arrangement would **increase** the transferor's asset
- ❑ Does **NOT** depreciate if arrangement requires operator to return facility to transferor in its original or enhanced condition

Governmental Operator

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- ❑ Reports an intangible asset for the right to access and use the property
- ❑ Reports a liability to restore facility to a specified condition if required by agreement and the facility is not in the expected condition
- ❑ Improvements made to the facility by the government operator increases the government operators intangible asset if the improvements increase the capacity of efficiency of the facility

Revenue Sharing Arrangements

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- ❑ Transferor reports only its portion of revenues and expenses
 - Recognized when earned in accordance with the terms of the arrangement
 - Unconditional payments to transferor treated like installment payments discussed earlier
- ❑ Governmental operator reports all revenues earned and expenses incurred

Effective Date

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- Effective for periods beginning after 6/15/12 (FYE 6/30/13; 12/31/13), early application encouraged

GASB STATEMENT 61,
THE FINANCIAL REPORTING
ENTITY : OMNIBUS

Issued June 2010

Objectives

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- Amend standards for defining and presenting the financial reporting entity in Statement 14 to ensure that financial statements:
 - Include the organizations that *should be* included
 - Exclude organizations that *should not be* included
 - Display and disclose the financial data of component units (including equity interests) in the most appropriate and useful manner
 - Are consistent with the current conceptual framework

Overview

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- The most significant effects of Statement 61:
 - Increase the emphasis on financial relationships
 - Raises the bar for inclusion
 - Refocus and clarify the requirements to blend certain component units
 - Improve the recognition of ownership interests
 - Component units
 - Joint ventures
 - Investments

Inclusion Criteria

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- Statement 14 requires inclusion if PCU is fiscally dependant. That is, PG has authority over:
 - Budget, or
 - Setting taxes and charges, or
 - Issuing debt
- Statement 61 adds a requirement for a financial benefit or burden before inclusion is required.
- Effect: PCU needing PG approval for its budget, levies, or debt issuances is no longer a sufficient reason, on its own, to include it

Inclusion Criteria

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- Statement 14 requires inclusion of a PCU if exclusion would make reporting entity's statements "misleading or incomplete"
- Statement 61 eliminates "incomplete," and emphasize that the determination would generally be based on:
 - Nature and significance of relationship with PG
 - Generally financial in nature, such as significant financial benefit to/burden on the PG that is other than temporary
- Based on preparer professional judgment

Blending Requirements

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- Statement 14 requires blending if PG & CU have “substantively the same” governing body
 - ▣ Sufficient representation to allow complete control
- Statement 61 additionally requires either of the following relationships to qualify for blending:
 - ▣ A financial benefit/burden relationship, or
 - ▣ PG has “operational responsibility” for CU
 - PG’s personnel manage activities of CU like a fund, program, or department of the primary government

Blending Requirements

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- Statement 61 expands the blending criteria to include component units whose total debt outstanding is expected to be repaid entirely or almost entirely by resources of the primary government
 - ▣ Even if the component unit provides services to constituents or other governments, rather than exclusively or almost exclusively to the primary government

Blending Requirements

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- Statement 61 clarifies that funds of a blended CU have the same characteristics, reporting options, and limitations as those of the PG
 - ▣ Major fund reporting
 - ▣ Could be combined with other funds for display

Blending Requirements

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- Statement 61 clarifies how to blend component units in single-column BTA reports:
 - ▣ Consolidate CU data into the single column
 - ▣ Present combining info in the notes
- BTAs still have option to present a multiple-column report
 - ▣ Additional column(s), as if funds of the PG
 - ▣ Present PG total column

Major Component Units

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- Statement 61 provides guidance for the types of relationships that generally affect the major CU determination:
 - ▣ Services provided by CU to citizenry considered essential info to PG F/S users
 - ▣ Significant transactions with the PG
 - ▣ Significant financial benefit/burden relationship
- Eliminates consideration of each CU's significance relative to other CUs

Equity Interest Changes

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- Equity interest guidance extended beyond just stock; now also covers other forms of ownership (e.g., partnerships)
- Report an asset for equity interest in a component unit
 - ▣ Asset is eliminated if the component unit is blended
- Harmonizes reporting requirements for CUs, JVs, and organizations with JV characteristics

Minority Interest Changes

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- When an organization with joint venture characteristics is included as a CU in a PG's financial report:
 - ▣ Organization should report any equity interests of the *minority* participants as "restricted net assets, nonexpendable"

Note Disclosures

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- Clarifies that *current* disclosures require:
 - ▣ Rationale for including *each* component unit
 - ▣ Whether it is discretely presented, blended, or included as a fiduciary fund

(Practical consideration: Can aggregate similar CUs for disclosure)
- No new disclosures

Effective Date

45

- Effective for periods beginning after 6/15/12 (FYE 6/30/13; 12/31/13)
- Early application encouraged

STATEMENT NO. 62,
*CODIFICATION OF ACCOUNTING
 AND FINANCIAL REPORTING
 GUIDANCE CONTAINED IN PRE-
 NOVEMBER 30, 1989 FASB AND
 AICPA PRONOUNCEMENTS*

Issued December 2010

Objectives

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- ❑ Primary Objective of this Statement is to directly incorporate the applicable provisions in FASB and AICPA pronouncements issued on or before November 30, 1989, into the state and local government accounting and financial reporting standards
- ❑ Since FASB introduced its codification, its original pronouncements are nonauthoritative
- ❑ Paragraph 17 of Statement 34 requires application of pre-November 30, 1989, FASB statements, APB opinions and ARBs, unless they conflict with or contradict GASB pronouncements

Scope and Applicability

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- ❑ Applies to accounting and financial reporting for governmental, business-type activities, and proprietary funds, except as identified in the Statement
- ❑ Statement 20 is superseded
 - ❑ All applicable pre-November 30, 1989 FASB and AICPA pronouncements are contained in the GASB's codification
 - ❑ All potentially applicable post-November 30, 1989 non-GASB standards would be "other accounting literature"
 - Can be adopted as long as not considered conflicting with GASB Statements

What's Included?

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- Guidance on 29 topics is brought into the GASB literature, including:
 - Capitalization of interest costs (FAS 34)
 - Statement of net assets classification (ARB 43, APB 12 & FAS 6)
 - Special and extraordinary items (APB 30)
 - Comparative financial statements (ARB 43)
 - Related parties (FAS 57)
 - Prior-period adjustments (FAS 16 & APB 9)
 - Accounting changes and error corrections (APB 20 and FIN 20)
 - Contingencies (FAS 5 & FIN 14)
 - Extinguishments of debt (APB 26 & FAS 76)
 - Troubled debt restructuring (FAS 15)
 - Inventory (ARB 43)
 - Leases (FAS 13, 22 & 98 & FIN 23, 26 & 27)

What's Included?

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- Guidance on 29 topics is brought into the GASB literature, including (continued):
 - Sales of real estate (FAS 66)
 - Real estate projects (FAS 67)
 - Research and development arrangements (FAS 68)
 - Broadcasters (FAS 63)
 - Cable television systems (FAS 51)
 - Insurance enterprises (FAS 60)
 - Lending activities (FAS 91)
 - Mortgage banking activities (FAS 65)
 - Regulated operations (FAS 71, 90 & 101)

Effective Date

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- Effective for periods beginning after December 15, 2011, earlier application is encouraged
 - Not effectively immediately as Board wanted to give governments the opportunity to review the provisions of the Statement and make an assessment of their current practices to determine if any accounting changes should be retroactively applied
 - Change in accounting principle vs. correction of an error

STATEMENT NO. 63;
*STATEMENT OF NET POSITION
 FINANCIAL REPORTING OF
 DEFERRED OUTFLOWS OF
 RESOURCES, DEFERRED
 INFLOWS OF RESOURCES, AND
 NET POSITION*

Issued June 2010

Background

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- Concepts Statement 4 identifies 5 elements that make up a statement of financial position:
 - ▣ Assets
 - ▣ Liabilities
 - ▣ Deferred outflows of resources
 - ▣ Deferred inflows of resources
 - ▣ Net position
- This differs from the composition currently required by Statement 34, which requires the presentation of assets, liabilities, and net assets in a statement of financial position

Definitions

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- **Deferred outflows of resources**
 - ▣ A consumption of net assets by the government that is applicable to a future reporting period
 - ▣ Has a positive effect on net position, similar to assets
- **Deferred inflows of resources**
 - ▣ An acquisition of net assets by the government that is applicable to a future reporting period
 - ▣ Has a negative effect on net position, similar to liabilities
- **Net position**
 - ▣ The residual of all elements presented in a statement of financial position
 - ▣ = assets + deferred outflows – liabilities – deferred inflows

Provisions

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- Deferred outflows should be reported in a separate section following assets, but the two should not be combined to provide a subtotal.
- Deferred inflows should be reported in a separate section following liabilities, but the two should not be combined to provide a subtotal.
- Net Position components resemble net asset components under Statement 34

Governmental Funds

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- Governmental activities in Government-wide statements:

Statement of Net Position:

- ▣ assets + deferred outflows – liabilities – deferred inflows = net position

- Governmental fund format:

Balance sheet:

- ▣ assets + deferred outflows = liabilities + deferred inflows + fund balance

What Items Get Reported Now?

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- There are few items that GASB standards require to be reported as deferred outflows/inflows of resources as of today:
 - ▣ Statement 53 – Accounting and Financial Reporting for Derivative Instruments
 - ▣ Statement 60 –Service Concession Arrangements

Disclosures

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- Governments should provide details of different types of deferred amounts in the notes in significant components of the total deferred amounts are obscured by aggregation on the face of the statements
- If the amount reported for a component of net position is significantly affected by deferred inflows or outflows, governments should disclose an explanation in the notes

STATEMENT NO. 64,
*DERIVATIVE INSTRUMENTS:
APPLICATION OF HEDGE
ACCOUNTING TERMINATION
PROVISIONS, AN AMENDMENT
OF GASB STATEMENT NO. 53*

Issued June 2011

Derivatives in the Government Sector

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- Swaption
 - Gives the purchaser of the option the right, but not the obligation, to enter into an interest rate swap
- Commodity swap
 - Reduce exposure to a commodity's price risk
- Interest rate swaps
 - Variable-rate to fixed-rate— Government issues variable rate bonds to enjoy a lower cost of funds, but swaps into a fixed rate for budgetary reasons
 - Fixed-rate to variable-rate— Government issues fixed rate debt but swaps into a variable rate because it believes rates will fall over the life of the debt

Accounting for Derivatives: Basic Approach

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- Derivative instruments are measured on the statement of net assets at fair value
- Fair value changes are reported on the statement of resource flows as investment income
- Exception: Effective Hedges
 - Changes in fair value of derivative instruments would be reported on the statement of net assets as deferrals—either deferred outflows of resources or deferred inflows of resources
 - **Paragraph 22 of Statement No. 53 describes circumstances when hedge accounting should be terminated**

So What is Statement No. 64 About?

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- Questions regarding the application of the termination of hedge accounting have been raised in practice when swap counter parties have been replaced in swap agreements
- Statement 64 amends Paragraph 22 (d) to clarify when hedge accounting should continue in certain limited circumstances

Termination of Hedge Accounting

63

A hedging relationship is maintained and hedge accounting should continue to be applied when all of the following criteria are met:

- Collectibility of swap payments is considered to be probable
- Counterparty of interest rate swap or commodity swap, or counterparty's credit support provider, is replaced with an **assignment** or **in-substance assignment**
- Government enters into assignment or in-substance assignment in response to swap counterparty, or swap counterparty's credit support provider, either committing or experiencing an act of default or termination event as described in the swap agreement

Assignment

64

Assignment: Occurs when swap agreement is amended to replace original counterparty, or counterparty's credit support provider, but all other terms of swap agreement remain unchanged

In-substance Assignment

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In-substance assignment: Occurs when all of the following criteria are met:

- Original counterparty, or counterparty's credit support provider, is replaced;
- Original swap agreement ended and replacement swap agreement entered into on same date;
- Terms that affect changes in fair values and cash flows in original and replacement swap agreements are identical

In-substance Assignment (Continued)

66

In-substance assignment: Occurs when all of the following criteria are met:

- Any difference between the original swap's exit price and the replacement swap's entry price is attributable to the original swap's exit price that is based on the average of multiple quotations. Exit price represents the payment that terminates the original swap liability

Effective Date and Transition

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- Effective for periods beginning after June 15, 2011, earlier application encouraged
- Restatement of the financial statements for prior periods
- Disclosure of nature of the financial statement restatement

GASB CURRENT AGENDA

Projects Update – September 2011

Current Projects

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- Reporting Items Previously Recognized as Assets and Liabilities: Omnibus
- Postemployment Benefit Accounting and Financial Reporting
- Economic Condition Reporting
- Conceptual Framework–Recognition and Measurement Attributes
- Government Combinations
- Other Postemployment Benefits Accounting and Financial Reporting
- Financial Guarantees
- Fair Value Project

REPORTING ITEMS PREVIOUSLY RECOGNIZED AS ASSETS AND LIABILITIES: OMNIBUS

Deferrals Expose Draft August 2011

Project Objectives

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- To identify in existing authoritative literature balances that may meet the definitions in Concepts Statement No.4, Elements of Financial Statements, of deferred outflows of resources or deferred inflows of resources.
- To determine whether items previously reported as assets and liabilities should be reclassified as either deferred outflows/inflows of resources or outflows/inflows of resources.

Examples

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Item	Report As:
Prepayments	Asset
Pension plan's net position exceeds a total pension liability*	Asset
Resources received in advance of an exchange transaction	Liability
Resources advanced to another government in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction <u>when time requirements are the only eligibility requirements</u> that have not been met	Deferred Outflow of Resources
Resources received in advance in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction <u>when eligibility requirements other than time requirements</u> have not been met	Liability
Debt issuance costs	Outflow of Resources

What Else Do I Need to Know?

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- Use of the term "Deferred"
- Major fund criteria
- Proposed effective date
 - Periods beginning after June 15, 2012
- Exposure Draft Issued in August 2011
- Comment deadline
 - November 18, 2011

REEXAMINATION OF PENSION ACCOUNTING & FINANCIAL REPORTING STANDARDS

Pension Exposure Drafts June 2011

Project Timeline

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- Staff research completed; project added to current agenda April 2008
- Invitation to Comment issued March 2009
- Preliminary Views issued June 2010
- Exposure Drafts issued June 2011:
 - *Accounting and Financial Reporting for Pensions*
 - *Financial Reporting for Pension Plans*
- Final Statements Expected June 2012

Accounting and Financial Reporting
for Pensions

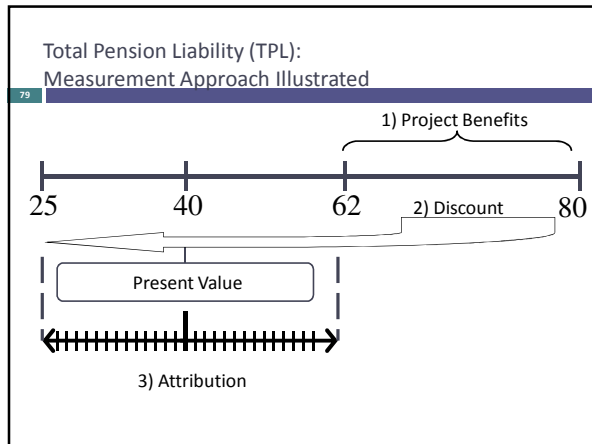
An Amendment of GASB Statement No. 27

Fundamental Approach

- Pensions viewed in the context of an ongoing, career-long employment relationship
- Accounting-based versus funding-based approach to measurement
- Focus on the cost over time to taxpayers of providing governmental services

Net Pension Liability

- An employer's net pension liability should be recognized on the statement of net position
- Calculated as total pension liability less plan net position restricted for pensions



- TPL: Timing and Frequency
- 80
- Measured as of the employer's year-end
 - For the calculation of the total pension liability, an actuarial valuation should be performed at least biennially
 - Measurement of total pension liability can be from:
 - An actuarial valuation as of employer's year-end
 - Update procedures rolling-forward amounts from an actuarial valuation as of a date no more than 24 months earlier

- TPL: Projection of Benefit Payments
- 81
- All current plan members in accordance with:
 - The terms of the benefit arrangement
 - Any additional legal agreement(s) to provide benefits that are in force at the actuarial valuation date
 - Exclude benefits provided through allocated insurance contracts and insured benefits if paid up and the probability is remote that the employer will be obligated for future transfers of assets

TPL: Projection of Benefit Payments (cont.)

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- Include automatic cost-of-living adjustments (COLAs) and other automatic retroactive benefit changes
- Include ad hoc COLAs and ad hoc retroactive benefit changes *that are substantively automatic*
- Include projected future salary increases (when benefit formula is based on future levels)
- Include projected future service credits (when determining probability of eligibility for benefits and when benefit formula is based on years of services)

TPL: Assumptions

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- Unless otherwise specified, assumptions should be made in conformity with Actuarial Standards of Practice
 - ASOPs require the actuary to evaluate the reasonableness of all assumptions at each measurement date

TPL: Discount Rate

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- Single rate reflective of:
 - Long-term expected rate of return (eROR) to the extent that plan net position from specified sources is
 - Projected to be sufficient to make benefit payments
 - Expected to be invested using a long-term investment strategy
 - Otherwise, index rate for a tax-exempt 30-year municipal bond rated AA/Aa (or equivalent) or higher

TPL: Discount Rate

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- Long-term eROR:
 - Should consider the nature and mix of current and expected pension plan investments
 - For determination of future plan net position:
 - Include expected future employer contributions intended to fund benefits of current plan members
 - Exclude expected future employer contributions intended to fund benefits of future plan members and expected future contributions by future plan members

TPL: Attribution

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- Entry age normal actuarial cost method
 - Attribution on an individual employee-by-employee basis
 - Service costs should be level as a percentage of employee's projected pay
 - Beginning attribution period should be first period in which employee's service accrues benefits
 - All benefits should be attributed through all assumed exit age(s)
 - Service costs determined on same benefit provisions reflected in employee's actuarial present value of benefit payments

Plan Net Position Restricted for Pensions

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- Measured at employer's fiscal year-end
- Measured using same valuation methods that are used in the statement of plan net position by the defined benefit pension plan, including measurement of investments at fair value

Recognition of Changes in the Net Pension Liability		
Change in the NPL	Expense	Deferred Outflow or Inflow of Resources
Service cost	X	
Interest on TPL	X	
Plan changes	X	
TPL-related differences between expected and actual experience	Inactive portion	Active portion (with piece expensed)
Changes in assumptions	Inactive portion	Active portion (with piece expensed)
Projected earnings on investments	X (reduction)	
Difference between projected and actual investment earnings		X (with piece expensed)
Other sources	X	

Deferred Outflows of Resources/ Deferred Inflows of Resources	
<ul style="list-style-type: none"> Recognize TPL-related balances in expense over a closed period, using weighted-average expected remaining service Recognize differences between actual and projected earnings on plan investments in expense over 5 years Expense recognition begins in the period in which the difference/change occurred 	

Cost-Sharing Employers	
<ul style="list-style-type: none"> Recognize proportionate share of the collective: <ul style="list-style-type: none"> Net pension liability Pension expense Deferred outflows of resources Deferred inflows of resources Proportion is a measure of the employer's expected long-term relative contribution effort compared to the total of the long-term contribution effort of all the participating employers 	

Cost-Sharing-Specific Measurements

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- Effect of a change in proportion
- Difference between employer's actual contributions and proportionate share of employer contributions recognized by the plan
- Recognize as a deferred outflow of resources/deferred inflow of resources in period of change/difference
- Recognize pension expense over same period used at collective level for change of assumption/experience-related difference

Recognition: Modified Accrual

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- Liability: Normally expected to be liquidated with expendable available resources
- Pension Expenditures: Amount contributed to the pension plan or expected to be liquidated with expendable available resources

Notes to Financial Statements

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- Description of benefits
- Assumptions used to measure total pension liability (including discount rate)
 - NPL using +/- 1 percentage point
- Information about the elements of the plan's basic financial statements (plan net position)—can refer to plan report
- Changes in components of net pension liability by source*
- Components of pension expense*
- Components of changes in deferred inflows of resources/deferred outflows of resources related to pensions*

*Single and agent employers only; cost-sharing amount recognized and impact of contribution and collective share differences

Required Supplementary Information

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- Ten-year schedule of changes in the components of the net pension liability by source
 - Cost-sharing at collective level
- Ten-year schedule (cost-sharing collective and employer level with employer proportionate share percentage):
 - Total pension liability
 - Plan net position
 - Net pension liability
 - Ratio of plan net position to total pension liability
 - Covered-employee payroll
 - Ratio of net pension liability to covered-employee payroll

Required Supplementary Information (cont.)

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- Ten-year schedule of:
 - Actuarially calculated employer contribution, if determined
 - If cost-sharing employer, contractually required contribution
 - Employer contributions made
 - Difference between actuarially calculated employer contribution and contributions made, if applicable
 - Covered-employee payroll
 - Ratio of contributions to covered-employee payroll

Liabilities to a Defined Benefit Pension Plan and Insured Benefits

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- Liabilities to a defined benefit pension plan should be reported separate from net pension liability with amounts and significant terms disclosed in the notes
 - Short-term payables to a plan for legally or contractually required contributions outstanding at year-end
 - Long-term assessments upon joining multiple-employer plan
- Insured benefits to be reported the same as under Statement 27

Defined Contribution Pension Benefits

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- Pension expense: Amount of contributions or credits to employees' accounts attributable to the employees' services in the period, net of employee forfeitures
 - Forfeited amounts reallocated to other employee accounts should not be considered forfeitures for this purpose
- Pension liability: Difference between amount recognized as expense and amount contributed by employer

Special Funding Situation

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- Nonemployer with a unconditional legal requirement:
 - Nonemployer will recognize its proportionate share of net pension liability, pension expense, deferred outflows of resources, and deferred inflows of resources
 - Amounts recognized by employer will be reduced by amounts recognized by nonemployer
- Nonemployer with a conditional legal requirement:
 - Nonemployer will recognize its contributions in accordance with GASB Statement 24 (grant expense/expenditure)
 - Employer will recognize revenue in amount of nonemployer contributions

Effective Date

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- Periods beginning after June 15, 2012 if:
 - Only required to apply requirements for a single employer
 - No unconditional special funding situation
 - Plan net position of \$1 billion or more in plan's first fiscal year ending after June 15, 2010
 - Employer's plans are not reported by an entity that also reports
 - A pension plan with an unconditional special funding situation
 - A multiple-employer pension plan
- Otherwise, periods beginning after June 15, 2013

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Financial Reporting for Pensions Plans

An Amendment of GASB Statement No. 25

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Plan Financial Statement Recognition

- Current reporting generally retained
 - Investments at fair value
 - Benefit liabilities that are due and payable
 - Additions and deductions to net position
- “Formal commitments” should no longer be considered a receivable by the plan

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Plan Notes to Financial Statements

- General disclosures similar to Statement 25, as amended
- Annual investment rate of return (time-weighted and money-weighted) on plan investments, net of investment expenses
- Single-employer and cost-sharing plans—not agent:
 - Total pension liability of the employer(s)
 - Plan net position
 - Net pension liability of the employer(s)
 - Ratio of plan net position to the total pension liability of the employer(s)

Plan Required Supplementary Information

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- Single-employer and cost-sharing plans
 - Ten-year schedule of changes in net pension liability of the employer(s)
 - Ten-year schedule of components of NPL (TPL, plan net position) and related ratios
 - Ten-year schedule of annual investment rates of return, net of investment expenses
 - Time weighted
 - Money weighted
- Agent plans—only 10-year schedule of annual investment rates of return

Effective Date

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- Periods beginning after June 15, 2012, if:
 - A single-employer plan
 - No unconditional special funding situation
 - Plan net position is greater of \$1 billion or more in plan's first fiscal year ending after June 15, 2010
 - Plan not included in a financial report of a public employee retirement system or other entity, that also reports a single-employer plan with an unconditional special funding situation or a multiple-employer plan
- Otherwise, periods beginning after June 15, 2013

How to Provide Comments on the Proposals

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- EDs available for download at www.gasb.org
- Comment deadline
 - September 30, 2011 (generally)
 - September 20, 2011 for New York City public hearing participants
- Public hearings/user forums
 - October 3 and 4, 2011: New York City
 - October 13 and 14, 2011: San Francisco
 - October 20 and 21, 2011: Chicago

ECONOMIC CONDITION REPORTING

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Project Update

Background & Objectives

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- This project represents the third phase of a long-term project about economic condition reporting
 - ▣ Statement No. 44, Economic Condition Reporting: The Statistical Section

Defining Economic Condition and Its Components, and Fiscal Sustainability

Measures of Fiscal Sustainability

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Measure	Description
1	Projections of the major individual cash inflows in dollars and as a percentage of total cash inflows
2	Projections of the major individual cash outflows by program or function in dollars and as a percentage of total cash outflows
3	Projections of major individual financial obligations and total financial obligations including bonds, pensions, OPEB, and long-term contracts
4	Projections of annual debt service payments (P&I)
5	Narrative discussion about major intergovernmental service interdependencies

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Projecting Fiscal Sustainability Information

- Annual projections of fiscal sustainability information would be made for a minimum of 5 years beyond the reporting period
- Projections would be included as RSI
- Projections would include governmental and business-type activities
- Projections of fiscal sustainability information would be based on the following:
 - Current policies
 - Informed by historical information
 - Adjusted for known future events and conditions

GOVERNMENT COMBINATIONS

Project Update

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Project Background

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graph LR
    A[APB No. 16] --> B[Project was presented in 2003 and added to potential projects list in 2006]
    B --> C[FASB Issued SFAS No. 164 in 2009]
    C --> D[2010 GASAC Provides a High Priority Ranking]
    
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Project Status Update

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- A two phase project based on consideration
- Proposed scope of combinations without consideration include:
 - Government consolidations
 - Other combination arrangements
- A carryover approach to measurements
- Acquisitions and related issues will be addressed this Fall
- Exposure draft expected—Spring 2012

Questions?

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- Order Forms & Website
- Contact Information

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